Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to address you on the very important topics of the nature and extent of domestic and international drug proceeds and other money laundering and the efforts law enforcement is taking to identify, target, and prosecute the perpetrators of these crimes and to seize and forfeit their assets and instrumentalities.

A. Targeting the Money

That illicit proceeds generated from criminal activity serve as the rationale of any "for profit" criminal activity is an often repeated truism. An equally accurate, though rarely stated fact is that, at least where organized criminal activity generates its profits in the form of cash, the volume of this illicit cash and the need of the enterprise to enter it into the legitimate financial system are vulnerabilities for that criminal enterprise, and could provide law enforcement with perhaps its best opportunity to target those illicit proceeds.

To put the drug trafficker's cash burden into clearest perspective, I am providing a chart that compares the weight of illicit drugs that must be sold to generate a specified sum of money (for example, $1 million), with the weight of the currency that the criminal now must seek to return to his use. The numbers are startling.

For example, if a trafficking organization wishes to sell $1 million worth of heroin on the streets of Chicago, it must produce, transport and distribute merely **22 pounds** of heroin to do so. Having sold the drugs, however, the trafficking organization must contend with **256 pounds** of street cash (this based on an average weight of $5's, $10's and $20's). This cash weight is more than 10 times the weight of the drugs sold. If we look at cocaine instead of heroin, the weight of

the product to be sold equals only **44 pounds**, and again the weight of the currency is over **256 pounds**, (i.e., 6 times the weight of the drugs sold).

Even more dramatic are the figures where a major drug trafficking organization is selling billions of dollars worth of illicit drugs. For example, if a trafficking organization sells $1 billion worth of cocaine on the streets of New York City, it must contend with more than **256,000 pounds** of illicit currency. Although no definitive figures are available, if we assume a conservative figure of $50 billion for all illicit drugs sold in the United States, the amount of illicit currency produced by those sales weighs almost **13 million pounds**! By anyone's measure, that is a prodigious amount of illicit proceeds with which the traffickers must deal each year.

An equally crucial matter to remember is that the international drug trafficker produces, processes and transports his illicit products in places with only a limited U.S. law enforcement presence until the moment his product arrives at the borders of the United States. Once the illicit drugs are sold in the U.S., however, that trafficker or his domestic or international money launderer immediately faces a U.S. law enforcement anti-money laundering regime in the form of Bank Secrecy Act laws and regulations, including large value and suspicious reporting, federal, state and local anti-money laundering investigators, prosecutors and regulators, undercover operations, court-authorized electronic surveillance interceptions, and interagency attacks such as Geographic Targeting Orders.

Thus, our basic anti-money laundering objective must be and is currently to identify and prevent the initial placement of drug proceeds into our nation’s financial system. It is at this stage that the launderers of drug money are most vulnerable to detection and prosecution, and their illicit proceeds are most vulnerable to identification, seizure and forfeiture.

B. Financial Sector Strategy of Attack

Our primary line of attack against domestic and international drug and other money launderers has been and continues to focus on this cash placement vulnerability and thereby to deny our financial system to money launderers. Placement into our system requires the use of an array of financial sectors, and we at the Department of Justice and the Department of the Treasury are committed to attacking illicit cash proceeds money laundering through a financial sector approach.

Our banks and other depository institutions are our first line of defense against the placement of illicit cash proceeds into our financial system, and for the past two decades we have been working with these institutions to deny launderers easy access directly into those institutions. While exceptions still occur, we have largely succeeded in barring launderers' direct access to our banks. As a result, illicit cash proceeds money launderers necessarily are looking more than ever before to other financial institutions, such as wire remitters, casas de cambio, vendors of money orders and traveler's checks, and check cashers to introduce drug proceeds indirectly into our banks.

We view these institutions as representing discrete **financial sectors**, and are working jointly with the Treasury Department, the Postal Inspection Service and federal regulators to identify laundering through these sectors, and to deny access to our financial system through these entry points. The most successful joint attack to date has been in the use of the Geographic Targeting Order ("GTO") in the New York City/New Jersey area.

1. The New York/New Jersey GTO

In 1992, the Congress gave law enforcement a wonderfully-flexible weapon in the war against money laundering. That weapon, codified at 31 U.S.C. § 5326, gives the Secretary of the Treasury, or his designee, authority to issue an order to financial institutions in a designated geographic area where "reasonable grounds exist" to find that additional record-keeping or reporting is necessary to enforce the money-laundering laws. The order is effective for 60 days and can be renewed.

In other words, this law gives the government authority to identify and target an entire financial sector in an area where we believe money laundering is occurring. Since anonymity is essential for money launderers, the additional record-keeping and identification requirements and the lower threshold for reporting cash transactions that a GTO invokes make the targeted financial sector much less desirable and practicable for illicit proceeds placement in a particular geographic area.

This past year, a cooperative effort of the Department of Justice, through the Criminal Division and the Department of Treasury, and working through the ONDCP-funded New York HIDTA, has shown how effective a GTO can be. Almost exactly one year ago, in August 1996, at the combined requests of three United States Attorneys, the United States Customs Service, and the Internal Revenue Service, Under Secretary of the Treasury Raymond Kelly issued a GTO to twelve identified money remitters in the New York City/New Jersey area that did more than 10% of their business with Colombia. The order required these remitters and their more than 1600 agents to report, on a special form, all transactions in cash or monetary instruments of $750 or more going directly or indirectly to Colombia. The order has since been extended and

expanded to include a total of 22 licensed remitters. The GTO caught the money launderers completely by surprise and has had a powerful and beneficial impact.

The origins of this GTO go back more than three years, to a collective initiative of the United States Attorney's Office for the Eastern District of New York and the El Dorado Task Force, an anti-money-laundering project led by the Department of the Treasury and including representatives of the United States Customs Service, the Internal Revenue Service, the Secret Service, the New York City, Suffolk County and Nassau County Police Departments, the New York State troopers and the New York State Banking Department. They agreed to dedicate significant resources and personnel to the pursuit of lower-level targets in the money remitting industry in Jackson Heights, with the expectation that these lower-level targets would lead to more high-level targets and, possibly, if the evidence warranted, to the targeting of suspect enterprises within a financial sector.

to be taken on the day the GTO went into effect, and each day thereafter. This plan involved the relevant United States Attorneys' Offices, the El Dorado Task Force, FinCEN, the U.S. Postal Inspection Service, the ONDCP-funded New York HIDTA, state and local participants, as well as Justice and Treasury Headquarters.

While each of the above played an important role in the application, implementation and followup of this GTO, we cannot stress enough the importance of the IRS Civil Examination Branch in this joint endeavor. IRS Exam personnel spent thousands of hours reviewing financial data, and their analysis, as well as participation by IRS Criminal Investigations Division personnel, have been crucial to the success of this joint enterprise. The IRS efforts, I concede, resulted in very little if any direct financial tax return to the U.S. Treasury, but these efforts, I suggest, must instead be evaluated for the enormous assistance they provided to protecting the integrity of the U.S. financial system. In our view, and especially in financial sectors comprised of nonbank financial institutions such as, for example, money remitters, travellers checks and money order issuers and redeemers, casinos, money exchangers and check cashers, where IRS is the **only** Federal regulator, IRS participation and assistance in enforcing these targeting strategies is essential.

We knew that the GTO would "displace" enormous quantities of drug currency into other financial sectors, and that money launderers would quickly seek to avoid the targeted remitters. Millions of dollars of drug proceeds normally returned to Colombia through money remitters in the New York area would be flushed back onto the streets of New York and New Jersey, and would travel, by cars, trucks, boats and airplanes, and every other conceivable and inconceivable method of container or transport, through and out of the United States. Thus, we had to allocate

and apply resources and personnel, in advance, to ensure not only that the terms of the GTO were being followed and that the reporting was accurate, but that other possible pipelines for the illicit money were closed and all possible follow-up actions would be undertaken to track and seize the drug cash proceeds displaced by the GTO.

We collectively coordinated and directed the implementation of a plan in which federal, state and local law enforcement would be on the lookout for these funds, both in the affected area and in other regions where we knew drug proceeds from this area had moved previously. Law enforcement increased attention on money order sales surveillance; stepped up enforcement actions, particularly seizures, at airports and the border; enhanced street level enforcement and surveillance of all routes of known drug cash transportation out of the GTO area; and coordinated and monitored all money laundering cash undercover activity in the GTO area.

Targeting the illicit proceeds being placed into a specific financial sector and the cooperative interagency enforcement effort has had remarkable results. As a result of the GTO, money remitted to Colombia has dropped significantly both in the GTO area and elsewhere. Most importantly, the remissions to Colombia from the targeted remitters that did the bulk of their business with Colombia has dropped between 70-80%. At the same time, the number of special GTO reports being filed has been statistically insignificant, which is to say, those forwarding illicit cash, simply stopped doing this kind of business.

Second, seizures of illicit cash increased across the board, dramatically in many cases, over the same period last year. The seizures are increasing not just in the GTO area, but in Miami, Boston, and a variety of other locations, as New York area drug dealers look for other outlets for their illegal proceeds. Clearly, we are not capturing all the formerly remitted drug proceeds

displaced out of the GTO area, but planning for the GTO gave us the opportunity to anticipate movements of drug cash before those movements occurred, and together we acted accordingly, with excellent results.

Third, painstaking analysis of the reports filed under the GTO, as well as continuing analysis of the financial records of the money remitters, has led to a number of criminal investigations and prosecutions in the Eastern District of New York:

- We secured the first ever guilty plea in a criminal case filed in connection with structuring to avoid a GTO. U.S. v. Lopez, 97 CR 75 (E.D.N.Y.). In that case, Stella Lopez, the owner and manager of two money remitting agencies, was charged with failing to file GTO-required reports. On June 6, 1997, Ms. Lopez was sentenced to a prison term of 21 months.
- In separate cases, arrests warrants have been issued for Jose Ortiz, Guillermo Ortiz and Ignacio Lobos, each of whom is the owner and operator of a money remitter agent, for laundering drug proceeds and failing to file reports required by the GTO. All three are fugitives.
- In other cases, Fredys Soto, William Espitia, Edwin Medina, Oswaldo Cuzco and German Puerta were indicted on charges of laundering drug proceeds and failing to file reports required by the GTO. Three of these individuals will be sentenced this month.
- Finally, the information obtained as a result of the GTO has served as the basis for a number of other pending investigations, including search warrants on 21 establishments, resulting in illicit currency and extensive document seizures.

We have also worked to support the GTO internationally. The GTO targeted funds were intended to be remitted to Colombia. We knew from our investigations which establishments were receiving the funds in Colombia. Accordingly, the Criminal Division sent a listing of those

Colombian establishments through our Embassy in Bogota to the Colombian Banking Superintendent and asked her to "undertake all necessary inquiries and take all appropriate actions against those establishments available under Colombian law," and to provide us with a report of those actions. We have learned that some efforts have begun as a result of the listing we submitted, and we will continue to monitor closely actions taken against remitters in Colombia.

We intend to continue to supplement that listing, and inform Colombia of additional remitters as we identify them. Similarly, Colombia has agreed to send us a listing of all Colombian remitters licensed to receive international remissions. We will ensure that that list is made available to all Districts where money remission to Colombia is a concern. Further, as a result of the use of the GTO, Colombia now has instituted a $750 reporting mandate for international transmissions of money by its money remitters.

Thus, by any yardstick -- drug currency seized, laundering offenders identified and prosecuted, search warrants executed, enhanced reporting on suspect transmissions and, most importantly, reduction of money remissions to Colombia -- targeting the illicit cash being placed into this financial sector of the U.S. financial system has proven to be a tremendous success in helping us combat money laundering in the GTO area, and has confirmed that a collective attack on a financial sector can have outstanding results.

2. Proposed Regulations

Applying the methodology used in the New York/New Jersey GTO, law enforcement collectively is examining a host of non-bank financial institutions more closely than ever before.

As Treasury representatives on this panel will describe in detail, on May 21, 1997, FinCEN published three notices in the Federal Register proposing: (1) to make specified money service businesses (traveller check and money order issuers and sellers and money transmitters) subject to Suspicious Activity Reporting; (2) to require national registration with the Department of the Treasury by money service businesses (traveller check, money order and stored value sellers and redeemers, check cashers, retail currency dealers or exchangers and money transmitters); and (3) to require a new identification process and federal reporting by money transmitters remitting $750 or more in cash outside of the United States. We firmly support these proposals, and look forward to their earliest possible implementation.

3. Forging a Collective Approach

Use of the GTO mechanism and passage of the proposed regulations are but first steps. More must and will be done to target the immense volumes of illicit currency daily being placed into U.S. financial sectors, as well as being moved physically out of, and then, once in a financial system, transferred back into the United States. We believe that the most important lesson from the GTO is the value of consistent and close interagency cooperation at all stages of financial sector targeting strategy. Prosecutors and investigators must work actively and in tandem to target the appropriate financial sector, to identify their targets, to obtain and analyze as many financial records as can be made available, and, if necessary, to take the time to start enforcement at the lowest level and work slowly up the ladder.

To help carry out this approach nationwide, on May 29-30, 1997, the Department of Justice's Criminal Division and the Department of the Treasury held the first in a planned series of nationwide meetings involving core drug proceeds money laundering districts -- where we

anticipate a financial sector approach would produce the greatest results. This initial meeting brought together more than 160 principal investigators, regulators and prosecutors charged with money laundering enforcement in each of the 14 districts and at Headquarters.

The Conference presentations reviewed recent anti-money laundering developments including: the use of the New York City/New Jersey GTO; the use of FinCEN advisory notices to alert banks and other financial institutions to suspicious financial activities such as the use of foreign bank drafts; suspicious activities reporting by banks and nonbank financial institutions; wire transfer recordkeeping requirements for banks and other financial institutions; the proposed FinCEN regulations with respect to money service businesses; United States Postal Inspection Service, United States Customs Service and the Federal regulators' recent anti-drug proceeds money laundering initiatives.

Other topics covered included: the role of federal bank regulators in the anti-money laundering process; an overview of recent anti-money laundering/asset forfeiture developments in Mexico, Panama, Colombia and the Caribbean. A district-by-district review of money laundering activity seen in each district and actions taken to combat these activities. The Conference attendees enthusiastically endorsed the proposition that a financial sector targeting strategy by high level law enforcement officials was needed, and that future meetings to "brainstorm" the use of such an attack must continue to occur.

4. Targeting Outbound and Inbound Cash

A crucial point, however, must be remembered: if we are 100% successful in denying drug money launderers the ability to place their millions in illicit proceeds directly or indirectly into our financial system, the launderers will still bulk ship the currency out of the United States. Indeed,

as our financial sector attacks have developed, we are seeing more and more bulk cash shipping every day through every conceivable method. Accordingly, the May 29-30 Conference, as well as a smaller (eight-district) followup meeting, focused on the need to target the bulk cash smuggling of currency out of the United States and, the later movement of the currency, largely by courier, back into the United States. One possibility being discussed by Treasury and Justice involves funding and studying technological aids that would permit the detection of large volumes of currency being smuggled into the country.

Inbound currency largely is repatriated by couriers who file Currency and Monetary Instruments Reports (CMIR). In this area, we will scrutinize these filings more closely, work with our foreign counterparts to verify the CMIR information as soon as possible, perhaps contemporaneously, and utilize all state and federal laws to prosecute couriers bringing in illicit drug proceeds, as well as seize and forfeit these proceeds. In this connection, we will encourage all States to adopt licensing requirements that, where not followed, permit law enforcement to take immediate action. This approach already has been employed successfully in Miami; unfortunately, other states have practiced less vigorous oversight.

This reality of the increasing use of bulk cash smuggling also reemphasizes the importance of our continuing to work closely, bilaterally and multilaterally with those countries and areas receiving this cash. We must ensure that those countries have the ability and will to identify, track and seize illicit drug proceeds entering their territory, and that we have bilateral mechanisms in place to permit us to sift out the licit from the illicit proceeds when they are repatriated as bulk cash shipments back to the United States.

Drawing upon all of the experiences we have had as described above, the Department of Justice likewise intends to have advanced training for Assistant United States Attorneys to continue to educate them about the benefits of a financial sector/cash proceeds placement and movement approach to drug money laundering investigations and prosecutions. The experience of the New York/New Jersey GTO will demonstrate one successful application of such a targeting strategy, but each district will be encouraged to adopt and adapt its own approach.

C. White Collar Crime Money Laundering

Up to this point, I have discussed primarily the laundering of drug proceeds and other criminal activity generating large volumes of cash. However, drug money laundering, while probably accounting for the largest dollar volume of money laundering, represents only part of the problem. We must also look at the laundering of the proceeds of other kinds of criminal activity, such as white collar crime and organized crime. There are more than 100 federal and state offenses listed as "specified unlawful activities" under the federal money laundering statutes, and most of them are non-drug offenses.

The proceeds of many white collar offenses, including health care fraud, insurance fraud and bankruptcy fraud, are also being laundered by the perpetrators of these crimes as well as by professional money launderers. The laundering of these proceeds is not as obvious as is the laundering of drug proceeds because the proceeds of these white collar crimes are usually in the form of checks or wire transfers, thereby skipping the placement problems presented by cash proceeds. White collar criminal activity, by its very nature, produces illegal proceeds which, more often than not, will go undetected by regulatory and enforcement efforts focusing on the

placement phase in a money laundering transaction -- such efforts are designed to detect the placement of illegal proceeds in the form of cash into the legitimate banking system.

As a result, the laundering of these proceeds can be even more difficult to detect. The proceeds of white collar crime often look like legitimate payments, such as insurance premium payments or payments from government or private insurance programs. It is only after the illegal scheme is discovered that the flow of the illegal proceeds can be traced and identified. In this way, the laundering of white collar proceeds presents a different set of problems than does drug money laundering.

Statistics from the FBI and the Department's Asset Forfeiture and Money Laundering Section demonstrate the extent of white collar money laundering activity. According to FBI statistics, in 1995, 46% of convictions obtained under 18 U.S.C. §§ 1956 and 1957 ("Laundering of Monetary Instruments" and "Engaging in Monetary Transactions in Property Derived From Specifed Unlawful Activity," respectively) involved white collar crime; in 1996, the figure was 47%. Similarly, the Department's figures, which track the number of indictments containing money laundering charges, also indicate that more than 45% of the indictments reviewed involve white collar crime cases.

A prime example of how the white collar criminal circumvents efforts at the placement stage involves the laundering of significant sums derived through premium diversion fraud in the insurance industry. Virtually every premium diversion case involves money laundering. A prime example of how white collar criminals launder illegal proceeds gained through insurance premium diversion frauds is the "Bramson" investigation.

Leonard and Norman Bramson had a history of providing fraudulent medical malpractice insurance to doctors, nurses and others involved in the medical profession. In excess of 100,000 medical professionals have held Bramson company policies. The Bramsons operated an off-shore bank and numerous off-shore insurance companies in the Caribbean to facilitate their scheme. Premiums in the form of checks and other negotiable instruments were collected from hospitals and individuals involved in the medical profession and subsequently diverted off-shore. As claims were submitted under the malpractice policies, the Bramsons delayed payment through civil legal actions until eventually they closed the insurance company which wrote the policy and then created a new company to continue their scheme.

The Bramsons conducted their business in multiple jurisdictions over a ten-year period. The investigation revealed a pattern of money laundering activities in which numerous off-shore reinsurance companies were formed in order to siphon off proceeds in the form of commissions and other legitimate-looking fees. Many of these fees were deposited into the Bramsons' off-shore bank and repatriated to the United States through loans and other financial transactions. In all, this scheme utilized 53 companies and $20 million was collected by the perpetrators over the ten years the scheme operated. To date, eight subjects have been convicted and $6.5 million recovered. The Government is now in the process of seeking the extradition of another subject in this case, Mr. Martin Bramson, from Switzerland.

The Bramson case represents just one of a myriad of schemes used to systematically victimize our unwary citizens and plunder government programs such as Medicare and Medicaid. The Department uses the money laundering statutes and their attendant forfeiture provisions aggressively to prosecute those who perpetrate these schemes and to reclaim the proceeds of

these illegal schemes. Further, the fact of the international nexus in the Bramson case is not unusual. According to figures compiled by the U.S. Sentencing Commission, more than 25 percent of the money laundering cases analyzed by the Commission in FY 1995 involved some international money laundering conduct.

Over the past three years, the Department has averaged approximately 2,000 money laundering prosecutions a year under sections 1956 and 1957. The Asset Forfeiture and Money Laundering Section conducts two money laundering conferences each year for federal prosecutors, and has recently initiated a series of training seminars on financial investigations for law enforcement agents. The Section also supports all of the law enforcement agencies in their training efforts, both domestically and internationally.

I would note here that Congress has continually shown its support for our efforts in prosecuting money laundering by adding to the list of predicate crimes for the money laundering statutes. The addition of health care offenses and terrorism offenses as money laundering predicates will enhance the Department's efforts in these important areas. Your support in this regard is greatly appreciated by the Department. You may recall that last May the Department sent a report to this Committee concerning the "Charging and Plea Practices of Federal Prosecutors with Respect to the Offense of Money Laundering." In that report, we described how important the money laundering statutes are to federal law enforcement efforts, and we also outlined the steps the Department has taken to promote the uniform and consistent application of these statutes.

D. Legislation

To enhance federal law enforcement's ability to combat illegal money laundering, we are working with the Department of the Treasury to draft legislative proposals designed to attack the domestic and international laundering of criminal proceeds, either by criminals who commit crimes abroad and launder them in the United States, or by those who commit offenses in this country and seek to launder their ill-gotten gains here or abroad.

The Departments of Justice and Treasury look forward to develop and working with your staff to advance these anticipated proposals.

E. Conclusion

In conclusion, we believe that we must utilize a financial sector strategy to attack the placement of drug proceeds into the United States financial system, as well as the transportation of these proceeds out of and then back into the United States. The successful use of the New York City/New Jersey GTO targeting mechanism in the New York/New Jersey area is but one outstanding example of applying this approach. It shows what can be done when, with careful and scrupulous interagency planning and cooperation. We can identify a segment of the financial community that is being corrupted by drug proceeds money launderers and target it in a comprehensive and well thought-out manner.

Have our interagency attacks on the financial side of the drug trade made a difference? I strongly believe so, and two important developments bear me out. As a result of the increased difficulty to move their proceeds out of the United States, the Colombian drug trafficking organizations more and more are distancing themselves from the money side of their operations, by contracting out the laundering of the drug proceeds to independent money brokers. This contracting out process is costing the drug traffickers billions of dollars. Estimates of the cost of

repatriating drug cash proceeds from ten years ago were in the 5-7% range. Laundering costs now are estimated to be in the 15-20% range. Thus, in the past ten years, we have increased the laundering costs, and thereby reduced the profit margins by threefold.

The Department of Justice, its prosecutors, investigators and support staff both at Headquarters and in the 94 United States Attorneys' Offices are extremely proud of the part we have been able to play in our joint anti-money laundering endeavors, and we congratulate the Department of Treasury for its use of the GTO, as well as the publication of the proposed regulations, the use of FinCEN "Advisories" and its working relationships with the financial community in the United States, and applaud as well the federal law enforcement agencies and offices, the federal regulators and State and local participants in our interagency anti-money laundering efforts. We have seen the results of "targeting the money," and are committed to this same interdepartmental/interagency approach in the future.

I very much appreciate your having given me the opportunity to present the Department's views on this crucial area of money laundering enforcement. I would be pleased to answer any questions from the Subcommittee at this time.